

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

ADOBE SYSTEMS INCORPORATED,

Plaintiff,

v.

HOOPS ENTERPRISE LLC; and ANTHONY
KORNRUMPF,

Defendants.

No. C 10-2769 CW

ORDER GRANTING
PLAINTIFF'S MOTION
FOR PARTIAL
SUMMARY JUDGMENT
(Docket No. 135)

AND ALL RELATED CLAIMS

Plaintiff Adobe Systems LLC moves for partial summary judgment, finding the first sale defense inapplicable and granting judgment in its favor on the counterclaim against it brought by Defendants Anthony Kornrumpf and Hoops Enterprise, LLC.¹ Defendants oppose Adobe's motion. Having considered the papers submitted by the parties and their oral arguments at the hearing, the Court GRANTS Adobe's motion.

¹ In the title of its motion, Adobe states that it seeks summary judgment "finding no contractual release of OEM sales," among other things. Mot. at i. However, Adobe did not move on this basis in its papers or address this topic in any way. Accordingly, the Court assumes that Adobe titled its motion in error.

BACKGROUND²

Adobe initiated this copyright and trademark infringement lawsuit on June 24, 2010, alleging that Defendants sell Adobe software through the use of the Internet auction site eBay and the website www.lookoutdeals.com, among other services, and that Adobe has not licensed Defendants to make or distribute copies of its software. Adobe also alleges that Defendants use, without a license, images similar or identical to Adobe trademarks as part of their online business. Adobe seeks relief pursuant to the Copyright Act, 17 U.S.C. §§ 101, et seq., and the Lanham Act, 15 U.S.C. §§ 1501, et seq.

Defendants filed counterclaims against Adobe for a declaratory judgment of copyright misuse and violation of California's Unfair Competition Law (UCL), Cal. Bus. & Prof. Code §§ 17200, et seq. In particular, Defendants contend that Adobe misuses its copyrights by asserting them in contravention of the first sale doctrine, as codified in 17 U.S.C. § 109. Defendants also assert copyright misuse and the first sale doctrine as affirmative defenses. Answer ¶¶ 10, 23.

On January 19, 2011, the Court dismissed Defendants' original counterclaims. Docket No. 47. Defendants then filed their First Amended Counterclaims, re-alleging both of their counter-claims.

² Adobe has objected to some of the evidence submitted by Defendants. Because the evidence to which Adobe has objected was not material to the Court's decision, Adobe's objections are overruled as moot.

1 Docket No. 50. On July 25, 2011, the Court dismissed with
2 prejudice Defendants' counterclaim for declaratory judgment of
3 copyright misuse but denied Adobe's motion to dismiss Defendants'
4 UCL counterclaim. Docket No. 94.

5 Adobe states that it distributes software for which it holds
6 the copyright pursuant to restricted licensing agreements and does
7 not transfer title to the software at any time. Coombs Decl. ¶ 2,
8 Ex. A (Stickle Decl.) ¶ 5. The licensing agreements restrict the
9 use, location of distribution, transfer and sometimes who is
10 qualified to obtain the product. Id. One type of restricted
11 software that Adobe distributes is Original Equipment Manufacturer
12 (OEM) products that are distributed in a bundle with approved
13 hardware components. Id. at ¶ 7. The bundles are
14 product-specific and Adobe's product may not be unbundled and sold
15 separately or re-bundled with products not previously approved by
16 Adobe. Id.

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19 Defendants acknowledge that they have sold OEM copies of
20 Adobe's software and that the software they have sold comes from
21 several companies, including Dell and Hewlett-Packard. Opp. at 2,
22 8-9, 11; Kornrumpf Decl. ¶¶ 3, 5; Coombs Decl. ¶ 3, Ex. B
23 (Kornrumpf Depo.) Tr. 20:5-6. Defendants admit that "[o]ne
24 specific title of software that originated through Dell that
25 Defendants have sold is Photoshop Elements 8." Opp. at 8-9.
26 Defendants further concede that "[o]ne specific tile of software
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1 that originated through Hewlett Packard Company that Defendants
2 have sold is Premiere Pro CS4." Id. at 11.

3 Defendants obtain Adobe OEM versions of software that have
4 been unbundled from the hardware with which they were originally
5 packaged. Kornrumpf Depo. Tr. 148:18-149:10. Defendants then
6 sell the software. See, e.g., id. at 14:2-6, 43:5-45:6. When
7 they sell Adobe OEM software, Defendants generally package it with
8 items such as a piece of photo paper, a blank DVD, or a media card
9 reader, which Adobe had not authorized for bundling. Stickle
10 Decl. ¶¶ 9, 10; Kornrumpf Depo. Tr. 43:12-45:16. Defendants have
11 not bundled OEM software that originally came with OEM hardware
12 with these types of products when Defendants have sold that OEM
13 software. Kornrumpf Depo. Tr. 143:2-8.

14
15 Adobe, through an investigator, made several test purchases
16 of Adobe OEM software from Defendants through their eBay monikers.
17 Coombs Decl. in Supp. of Mot. for Prelim. Inj. ¶ 3, Ex. B
18 (Fernandez Decl.) ¶¶ 5-11; Stickle Decl. ¶¶ 9, 10. Some of the
19 products it purchased were meant for an overseas market, "were
20 manufactured abroad and were not meant to be imported into the
21 United States." Stickle Decl. ¶ 9.

22
23 In conjunction with Defendants' prior motion for a
24 preliminary injunction, Defendants proffered evidence of a form
25 contract Adobe uses with hardware manufacturers for the
26 distribution of its software. See Boyce Decl. in Supp. of Defs.'
27 Mot. for Prelim. Inj., Docket No. 69, ¶ 15. The contract states
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1 that Adobe provides only licenses to the manufacturer and that the
2 manufacturer "shall not at any stage have title to the physical
3 property or the Intellectual Property in the Software Products."
4 Boyce Decl. in Supp. of Defs.' Mot. for Prelim. Inj., Ex. E,
5 Docket No. 87, ¶ 12.3.

6 With their opposition to the instant motion, Defendants have
7 submitted copies of Adobe's contract with Hewlett-Packard
8 governing the distribution of software, including Photoshop
9 Elements 8, and Adobe's contract with Dell governing distribution
10 of software, including Premiere Pro CS4. See Boyce Decl.
11 ¶¶ 10-13, 15-16, Exs. F, G, H, I, K, L.³ These contracts resemble
12 the form contract that Defendants previously submitted.

13 Adobe's agreement with Dell is titled as a licensing
14 agreement. Boyce Decl. ¶ 10, Ex. F at 1. In the agreement, Adobe
15 specifies that Dell is granted a license and requires Dell to
16 obtain a similar agreement with any third-parties prior to
17 authorizing or sublicensing the software to them. Id. at ¶ 2.1.
18 Adobe retains ownership of intellectual property rights in the
19 software and places substantial restrictions on Dell's use of the
20 software. Id. at ¶¶ 2.1, 2.4, 2.5. Adobe also prohibits Dell
21 from promulgating the software through specified means and
22 requires that the software be bundled with specified Dell
23 hardware. Id. at ¶¶ 2.1, 2.5; Boyce Decl. ¶ 11, Ex. G at ¶ 2.0.

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27 ³ Because these exhibits were filed under seal, the Court
28 describes their content in general terms in this Order.

1 Dell is obliged to take steps to prevent resellers from selling
2 the software separately from this hardware. Boyce Decl. ¶ 10, Ex.
3 F at ¶ 2.1. Dell is required to include Adobe's end-user license
4 agreement with the hardware in such a way that the user can read
5 it before accessing the software media and must include Adobe's
6 "copyright and proprietary notices." Id.

7
8 Adobe's agreement with Hewlett Packard is also titled as a
9 licensing agreement and contains terms similar to Adobe's
10 agreement with Dell. Boyce Decl. ¶¶ 15-16, Exs. K, L. For
11 example, it requires that the software be bundled with specified
12 HP hardware. Boyce Decl. ¶ 15, Ex. K, at ¶¶ 1.5, 3.1. It also
13 contains similar use restrictions to those in the agreement with
14 Dell. Id. at ¶ 3.7.

15 LEGAL STANDARD

16
17 Summary judgment is properly granted when no genuine and
18 disputed issues of material fact remain, and when, viewing the
19 evidence most favorably to the non-moving party, the movant is
20 clearly entitled to prevail as a matter of law. Fed. R. Civ.
21 P. 56; Celotex Corp. v. Catrett, 477 U.S. 317, 322-23 (1986);
22 Eisenberg v. Ins. Co. of N. Am., 815 F.2d 1285, 1288-89 (9th Cir.
23 1987).

24
25 The moving party bears the burden of showing that there is no
26 material factual dispute. Therefore, the court must regard as
27 true the opposing party's evidence, if supported by affidavits or
28 other evidentiary material. Celotex, 477 U.S. at 324; Eisenberg,

1 815 F.2d at 1289. The court must draw all reasonable inferences
2 in favor of the party against whom summary judgment is sought.
3 Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574,
4 587 (1986); Intel Corp. v. Hartford Accident & Indem. Co., 952
5 F.2d 1551, 1558 (9th Cir. 1991).

6 Material facts which would preclude entry of summary judgment
7 are those which, under applicable substantive law, may affect the
8 outcome of the case. The substantive law will identify which
9 facts are material. Anderson v. Liberty Lobby, Inc., 477 U.S.
10 242, 248 (1986).

11
12 Where the moving party does not bear the burden of proof on
13 an issue at trial, the moving party may discharge its burden of
14 production by either of two methods:

15 The moving party may produce evidence negating
16 an essential element of the nonmoving party's
17 case, or, after suitable discovery, the moving
18 party may show that the nonmoving party does not
19 have enough evidence of an essential element of
20 its claim or defense to carry its ultimate
21 burden of persuasion at trial.

22 Nissan Fire & Marine Ins. Co., Ltd., v. Fritz Cos., Inc., 210 F.3d
23 1099, 1106 (9th Cir. 2000).

24 If the moving party discharges its burden by showing an
25 absence of evidence to support an essential element of a claim or
26 defense, it is not required to produce evidence showing the
27 absence of a material fact on such issues, or to support its
28 motion with evidence negating the non-moving party's claim. Id.;
see also Lujan v. Nat'l Wildlife Fed'n, 497 U.S. 871, 885 (1990);

1 Bhan v. NME Hosps., Inc., 929 F.2d 1404, 1409 (9th Cir. 1991). If
2 the moving party shows an absence of evidence to support the
3 non-moving party's case, the burden then shifts to the non-moving
4 party to produce "specific evidence, through affidavits or
5 admissible discovery material, to show that the dispute exists."
6 Bhan, 929 F.2d at 1409.

7
8 If the moving party discharges its burden by negating an
9 essential element of the non-moving party's claim or defense, it
10 must produce affirmative evidence of such negation. Nissan, 210
11 F.3d at 1105. If the moving party produces such evidence, the
12 burden then shifts to the non-moving party to produce specific
13 evidence to show that a dispute of material fact exists. Id.

14 If the moving party does not meet its initial burden of
15 production by either method, the non-moving party is under no
16 obligation to offer any evidence in support of its opposition.
17 Id. This is true even though the non-moving party bears the
18 ultimate burden of persuasion at trial. Id. at 1107.

20 DISCUSSION

21 Defendants do not dispute that their counterclaim against
22 Adobe is valid only if the first sale doctrine applies to this
23 case and the Court finds that "Plaintiff has been selling, not
24 licensing, copies of its software products to certain OEM
25 companies." Opp. at 16.

26
27 "Copyright is a federal law protection provided to the
28 authors of 'original works of authorship,' including software

1 programs." Vernor v. Autodesk, Inc., 621 F.3d 1102, 1106 (9th
2 Cir. 2010) (citing 17 U.S.C. §§ 101-103). "The Copyright Act
3 confers several exclusive rights on copyright owners, including
4 the exclusive rights . . . to distribute their works by sale or
5 rental." Id. at 1106-07 (citing 17 U.S.C. § 106(3)). Copyright
6 infringement occurs whenever someone "violates any of the
7 exclusive rights of the copyright owner," including the exclusive
8 distribution right. 17 U.S.C. §§ 106(3), 501. "The exclusive
9 distribution right is limited by the first sale doctrine, an
10 affirmative defense to copyright infringement that allows owners
11 of copies of copyrighted works to resell those copies." Vernor,
12 621 F.3d at 1107. See 17 U.S.C. § 109(a) ("Notwithstanding the
13 provisions of section 106(3), the owner of a particular copy or
14 phonorecord lawfully made under this title, or any person
15 authorized by such owner, is entitled, without the authority of
16 the copyright owner, to sell or otherwise dispose of the
17 possession of that copy or phonorecord.").

18
19
20 Adobe argues, and Defendants do not dispute, that the first
21 sale doctrine does not apply to Adobe products that were
22 manufactured abroad. See Omega S.A. v. Costco Wholesale Corp.,
23 541 F.3d 982, 985 (9th Cir. 2008) (limiting the first-sale
24 doctrine to domestically-made copies of copyrighted works).

25
26 The Ninth Circuit has also held that the first sale
27 affirmative defense is unavailable to "those who are only licensed
28 to use their copies of copyrighted works." Vernor, 621 F.3d at

1 1107. "[A] software user is a licensee rather than an owner of a
2 copy where the copyright owner (1) specifies that the user is
3 granted a license; (2) significantly restricts the user's ability
4 to transfer the software; and (3) imposes notable use
5 restrictions." Id. at 1111.

6 Defendants argue that the license agreements between Adobe
7 and the OEM manufacturers do not create significant restrictions
8 on the transfer of the OEM copies or impose notable use
9 restrictions on these copies. However, the undisputed evidence in
10 the record clearly establishes that Adobe transferred a license
11 rather than title to these products. Adobe's license agreements
12 specify that they grant a license. Stickle Decl. ¶ 5; Boyce Decl.
13 in Supp. of Defs.' Mot. for Prelim. Inj., Ex. E ¶ 12.3; Boyce
14 Decl. ¶ 10, Ex. F at ¶ 2.1; Boyce Decl. ¶ 15, Ex. K at 1. The
15 licensing agreements impose significant transfer restrictions,
16 including those at Stickle Decl. ¶ 5; Boyce Decl. ¶ 10, Ex. F at ¶
17 2.1; ¶ 11, Ex. G at ¶ 2.0; ¶ 15, Ex. K, at ¶¶ 1.5, 3.1. The
18 agreements also impose significant use restrictions, such as those
19 at Stickle Decl. ¶ 5; Boyce Decl. ¶ 10, Ex. F at ¶ 2.5; ¶ 15, Ex.
20 K, at ¶ 3.7.

21 Defendants further argue that Adobe does not maintain
22 sufficient control over the OEM copies to support a finding that
23 it remained the owner of them. Defendants base their argument on
24 UMG Recordings, Inc. v. Augusto, 628 F.3d 1178 (9th Cir. 2011).
25 In UMG Recordings, the Ninth Circuit held that a music company
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1 transferred ownership of copies of a promotional CD, despite its
2 attempts to create a license, when it shipped the CDs to
3 recipients, with no prior agreement or request by the recipients
4 to receive the CDs. 628 F.3d at 1182-83. However, the court in
5 UMG Recordings specifically distinguished the Vernor test that
6 "applies in terms to software users," who "are in a very different
7 position from that held by the recipients of UMG's promotional
8 CDs." Id. at 1183. Further, Adobe maintains far more control
9 over the distribution of its software than the music company did
10 in UMG Recordings, as evidenced by the significant distribution
11 restrictions in its licensing agreements.

12
13 Because Adobe licenses, rather than sells, its OEM software,
14 the Court finds that the first sale doctrine does not apply to the
15 Adobe OEM software at issue in this case. The Court also finds
16 that the first sale doctrine does not apply to the Adobe OEM
17 software that is manufactured abroad. Because Defendants' UCL
18 counterclaim against Adobe and their copyright misuse and first
19 sale affirmative defenses are all based on the applicability of
20 the first sale doctrine to this case, the Court GRANTS Adobe's
21 motion for partial summary judgment.
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CONCLUSION

For the reasons set forth above, the Court GRANTS Adobe's motion for partial summary judgment (Docket No. 135).

IT IS SO ORDERED.

Dated: 2/1/2012


CLAUDIA WILKEN
United States District Judge